INDEPENDENT FACTORS LTD. 1988 ANNUAL REPORT

Highlights of the Year

- The company recorded its tenth consecutive year of profitability in 1987.
- A two-for-one stock split was completed in February, 1988.
- Consolidated net income totalled $254,500 or 18 cents per share. (1987, 25 cents per share).
- Total return on shareholder equity, was 9.7 per cent compared with 17 per cent in 1987.
- Retained earnings increased 15.5 per cent to $1,589,159, (1987 28.%).
- Sales, on a consolidated basis grew 21.5% to $7,131,586(1987, $5,871,935, up 12.1%).

The Company's Business

✦ *Independent Factors is engaged in the business of making equity investments in small businesses.*

✦ *The company has directly & indirectly equity investments in seven firms in industrial supply and related warehousing activities.*

✦ *The seven firms provide hardware to businesses in the forestry, agricultural, transportation, oil and gas and mining industries.*

✦ *Independent Factors also has investments in warehouses and land at three locations in Fort St. John, B.C.*

✦ *Independent Factors provides companies with operational financial advice based on a series of successful financial strategies which it has developed in its 14 years of operation.*

President's Report to the Shareholders

Review of 1988 Earnings and Revenue:

Sales on a consolidated basis for the year ended 31 Dec., 1988 were $7,131,586, (1987 $5,871,935), an increase of 21.5% but earnings were $254,500, (1987 $340,253), down 25% at 18 cents per share, (1987 24 cents per share).

There are three reasons for the downturn in earnings, each of which, as listed below, is temporary:

1) The businesses financed by Factors acquired substantial new computer equipment, software, and automotive rental equipment during the year, and wrote these investments down at full capital cost allowances, rather than over a longer period. Factors has adopted the simple, conservative method of using their approach for these write-offs, although it has temporarily depressed current earnings by about 3.5 cents net per share.
2) Costs of the Company's efforts to raise equity capital amounted to about 2.5 cents per share in 1988.
3) Income taxes were also increased by about 3 cents per share for 1988 due to the sale of assets on re-organizations.

In 1989, net earnings of Factors should again increase to their normal levels as a percentage of sales. One item, however, the reduction of equity holdings in 1988, may reduce earnings somewhat in 1989, and slightly in the year 1990. A good deal will depend on how effective the Company's restructuring plans prove to be in the next two years.

New Accounting Methods In 1989:

Beginning in 1989, Factors will use the equity method rather than consolidation for its financial statements as used for 1988 and prior years. Due to reorganizations during 1988, the equity investment of Factors in each business was reduced to 50% or less. Our Auditors have thus advised that due to a reduction in influence with, and due to, the equity reductions, the equity basis, rather than consolidation, is the proper accounting method for Factors to use from 1989 onward.

Bank Indebtedness and Liquidity:

Independent Factors Ltd. had loans due to its Bankers, secured by a debenture on its investments and real estate, as at 31 Dec. 1988, of $311,027. Additional loans guaranteed by Factors were $130,000, for a total of $441,027 direct and indirect Bank debt.

At 31 Dec. 1989, Bank indebtedness thus was:
4.43% of last years' combined sales (1987 4.33%);
8.67% of total assets at book value (1988 9.16%);
15.35% of Factors' equity at book value (1988 11.74%).

Personnel, Share Buy Back, and Share Trading:

The Company's management changed during the year, with Linda Avison taking on the task of operating her own business, and Richard Minichiello, C.A., joining the Company as Chief Financial Officer.

Subject to regulatory approval, the Company has plans to buy back in an orderly fashion through the Alberta Stock Exchange, up to five percent of its outstanding shares over the next year, provided that market price per share on such buy back is not above the book value of each share purchased.

During 1988, the shares of Independent Factors traded well with 113,875 "A" shares and 126,457 "B" shares traded (1987 237,229 shares traded.)

Summary:

1988 earnings were low, but that condition was temporary. In 1989, Factors should continue to provide a sound equity investment with steady earnings, some growth, and good security.

Dated at Edmonton, Alta., 18 April, 1989.

L Lewin, President

Consolidated Balance Sheet
as at 31 December 1988

	1988	1987
ASSETS		
Current		
Cash	$140,693	$ 364,251
Accounts receivable	921,863	827,015
Inventories	`1,961,266	1,800,378
Prepaid expenses	11,619	7,627
	3,035.441	2,999,271
LONG TERM INVESTMENTS, note 2	1,053,585	311,457
FIXED, note 3	979,023	690,855
GOODWILL note 4	16,308	22,083
	$5,084,357	$4,023,666
LIABILITIES		
CURRENT		
Bank indebtedness, note 5	$100,865	$28,498
Accounts payable	477,489	527,893
Income taxes	174,526	136,174
Current portion of long term debt	227,979	122,405
	980,859	814,970
LONG TERM DEBT, note 6	755,345	370,624
	1,736,204	1,185,594
MINORITY INTEREST	476,832	227,962
	2,213,036	1,413,556
SHAREHOLDERS' EQUITY		
SHARE CAPITAL, note 7	1,231,796	1,183,675
CONTRIBUTED SURPLUS	50,366	50,366
RETAINED EARNINGS	1,589,159	1,376,069
	2,871,321	2,610,110
	$5,084,357	$4,023,666

SIGNIFICANT ACCOUNTING POLICIES, note 1
CONTINGENT LIABILITIES, note 8
DIRECTORS REMUNERATION, note 9

Approved on behalf of the Board:

____________________, Director

____________________, Director

AUDITORS' REPORT

To The Shareholders
Independent Factors Ltd.

We have examined the consolidated balance sheet of Independent Factors Ltd. as at 31 December 1988 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 December 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Dunwoody & Company

Creston British Columbia
3 March 1989

Chartered Accountants

Consolidated Statement of Income and Retained Earnings

For the Year Ended 31 December 1988

	1988	1987
SALES	$7,131,586	$5,871,935
COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES	6,544,064	5,397,773
	587,522	474,162
OTHER INCOME	189,811	173,954
	777,333	648,116
OTHER EXPENSES		
Depreciation	159,703	61,076
Amortization of goodwill	5,775	885
Interest on long term debt	69,629	33,543
Other interest	14,583	10,884
	249,690	106,388
	527,643	541,728
SHARE OF EARNINGS OF COMPANIES ON EQUITY BASIS	23,805	56,566
CONSOLIDATED INCOME BEFORE INCOME TAXES	551,448	598,294
Income taxes	228,153	158,733
CONSOLIDATED INCOME	323,295	439,561
MINORITY INTEREST	68,795	99,308
CONSOLIDATED NET INCOME FOR THE YEAR	254,500	340,253
Retained earnings, beginning of year	1,376,069	1,077,105
	1,630,569	1,417,358
Dividends	41,410	41,289
RETAINED EARNINGS, END OF YEAR	$1,589,159	1,376,069
BASIC EARNINGS PER SHARE	$ 0.18	$ 0.24

Consolidated Statement of Changes in Financial Position

For the Year Ended 31 December 1988

	1988	1987
CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Operations		
Net income for the year	$ 254,500	$ 340,253
Items not involving cash		
Amortization of goodwill	5,775	885
Depreciation	159,703	61,076
Minority interest	68,795	99,308
Cash provided by operations	488,773	501,522
Changes in non-cash working capital balances		
Marketable securities	-	5,606
Accounts receivable	(94,848)	(94,269)
Inventories	(160,888)	(66,108)
Prepaid expenses	(3,992)	3,034
Accounts payable	(50,404)	59,747
Income taxes	38,352	89,919
Current portion of long term debt	105,574	42,049
	322,567	541,500
FINANCING ACTIVITIES		
Issue of common shares	62,121	13,747
Purchase of common shares	-	(55,956)
Purchase of share option	(14,000)	-
Increase in long term debt	384,721	214,964
Dividends	(41,410)	(41,289)
Increase (decrease) in minority interest	180,075	(262,974)
	571,507	(131,508)
INVESTING ACTIVITIES		
Increase in long term investments	(742,128)	(91,063)
Proceeds of sale of fixed assets	28,273	64,288
Purchase of fixed assets	(476,144)	(215,700)
	(1,189,999)	(242,475)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(295,925)	167,517
Cash and equivalents, beginning of year	335,753	168,236
CASH AND EQUIVALENTS, END OF YEAR	$ 39,828	$ 335,753
Represented by:		
Cash	$ 140,693	$ 364,251
Bank indebtedness	100,865	$ 28,498
	$ 39,828	$ 335,753

Notes to Consolidated Financial Statements

31 December 1988

1. SIGNIFICANT ACCOUNTING POLICIES
The following is a summary of significant accounting policies of the Company:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. Acquisitions are consolidated from the date of acquisition applying the purchase method. All significant intercompany transactions and accounts have been eliminated.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value with cost being determined on the first-in, first-out basis.

(c) Long Term Investments

Investments in companies in which the Company has significant influence are accounted for by the equity method, by which the original cost of the shares is adjusted for the Company's share of earnings or losses since significant influence was acquired.

(d) Fixed Assets

Fixed assets are stated at cost and depreciation is provided using the diminishing balance method with the exception of leasehold improvements which are depreciated using the straight line basis. The rates are as follows:

Buildings	- 5% and 10%
Equipment	- 20%
Leasehold improvements	- 20%
Computer equipment	- 30%
Computer software	- 100%
Automotive equipment	- 30%

In the year fixed assets are acquired one half the normal rate is used.

(e) Goodwill

The amount by which the purchase price of one of the subsidiary companies exceeds the net identifiable assets acquired is treated as goodwill and is amortized over its estimated useful life of thirty years using the straight line method.

Notes to Consolidated Financial Statements

31 December 1988

2. LONG TERM INVESTMENTS

	1988	1987
Shares in related companies	$ 760	$ 760
Share of earnings in companies accounted for using the equity basis	100,115	76,310
Loans to related companies	168,810	153,810
Loans to shareholders of related companies	634,954	4,717
Other loans	148,946	75,860
	$ 1,053,585	$ 311,457

3. FIXED ASSETS

	1988 Cost	1988 Accumulated Depreciation	1987 Cost	1987 Accumulated Depreciation
Land	$141,258	$ -	$ 123,333	$ -
Buildings	729,191	247,404	614,374	226,022
Equipment	231,569	152,642	216,959	135,355
Leasehold improvements	49,572	14,848	35,126	6,553
Computer equipment	129,236	46,507	43,831	27,276
Computer software	73,067	36,534	-	-
Automotive equipment	191,725	68,660	109,837	57,399
	1,545,618	566,595	1,143,460	452,605
Cost less accumulated depreciation	$979,023		$690,855	

4. GOODWILL

	1988	1987
Cost	$ 20,385	$ 26,500
Less accumulated amortization	4,077	4,417
	$ 16,308	$ 22,083

5. BANK INDEBTEDNESS

	1988	1987
Bank loans	$ 20,000	$ -
Overdraft	80,865	28,498
	$ 100,865	$ 28,498

The bank loans are secured by a general assignment of book debts, inventories and proceeds of certain fire and life insurance policies owned by the Company and its subsidiaries.

Notes to Consolidated Financial Statements

31 December 1988

6. LONG TERM DEBT

	1988	1987
Bank loans, repayable in monthly installments, of $7,819 plus interest at prime plus 1% secured by a demand debenture and collateral mortgage on land and buildings	$ 311,027	$ 284,046
Due to shareholder, unsecured, repayable at $1,000 monthly including interest at prime plus 2%	5,451	8,577
Note payable, unsecured, repayable in yearly installments of $12,900 plus interest at 10%	98,447	118,447
Notes payable, unsecured, interest free, not due within one year, no other specific terms of repayment	112,202	81,959
Notes payable to shareholders of related companies, unsecured, repayable in monthly installments of $8,000 plus interest at prime plus 1%	456,197	-
	983,324	493,029
Current portion	277,979	122,405
	$ 755,345	$ 370,624

Principal payments due in the next five years are as follows:

1989	- $227,979
1990	- 171,180
1991	- 160,134
1992	- 138,080
1993	- 137,220
	$834,593

During the year the company sold loans in subsidiary companies to shareholders of related companies in the amount of $456,197. Loans to shareholders of related companies (Note 2) include the above amount. In prior years these loans and long term investments were eliminated on consolidation.

Notes to Consolidated Financial Statements

31 December 1988

7. SHARE CAPITAL

		1988	1987
Authorized			
Unlimited	Class "A" common, voting shares of no par value		
Unlimited	Class "B" common, non-voting shares or no par value		
400,000	8% non-cumulative, redeemable preferred shares of par value of $5 each		
Issued			
698,314	Class "A" common, voting shares (1987 - 688,156)	$ 603,833	$1,183,675
711,218	Class "B" common, non-voting shares (1987 - nil)	627,963	-
		$1,231,796	$1,183,675

During the year 10,158 (1987 - 4,230) Class "A" shares were issued from treasury for the amount of $18,995 (1987 - $13,747). The Company issued one Class "B" share for each Class "A" share which was issued as at 31 December 1988. The Company also issued 23,062 (1987 - nil) Class "B" shares from treasury for the amount of $43,126. During the year the Company purchased and cancelled an outstanding option for the amount of $14,000.

The authorized capital was increased in the prior year by creating the following:
a) an unlimited number of Class "A" common, voting shares of no par value, and;

b) an unlimited number of Class "B" common, non-voting shares of no par value.

8. CONTINGENT LIABILITIES

The Company is contingently liable as guarantor of bank advances to related third parties of up to $275,000 (1987 - $125,000). Advances as at 31 December 1988 amounted to $200,000 (1987 - $71,490).

9. DIRECTORS' REMUNERATION

Remuneration to directors of the Company including directors fees, consulting fees and salaries amounted to $103,150 (1987 - $81,867)

Remuneration to active managers who are also directors of the Company's subsidiaries amounted to $250,500 (1987 - $217,309) during the year.

Corporate Information

Lawrence Lewin, President

One of the founders of Independent Factors, Mr. Lewin is president of the firm, as well as its chief executive officer. He operates from the company's administrative offices in Creston. A graduate of the University of British Columbia, Mr. Lewin is a lawyer by profession. Mr. Lewin has spent many years developing the financial strategies and equity financing programs utilized by Independent Factors.

R.A. (Mike) Kapler, General Manager

A native of Daysland, Alberta, Mr. Kapler is general manager of Independent Factors. He is located at the firm's operations office in Fort St. John and is responsible for the operating activities of all of the firms involved in the organization. Educated in Alberta, Mr. Kapler moved to the Yukon where he was a proprietor in an automotive business. After moving to Fort St. John, he became associated with Independent Factors' operations in that city in 1974.

Richard Minichiello, C.A.

Chief Financial Officer

Mr. Minichiello joined the company in August, 1988 as it's Chief Financial Officer.

Officers:

Lawrence Lewin, President
R.A. (Mike) Kapler, General Manager
Richard Minichiello, C.F.O.
Dennis Lewin, Treasurer
Edwin John, Secretary

Directors:

Lawrence Lewin, LLB
R.A. (Mike) Kapler
Edwin John, B. Sc. Ph.
Dennis Lewin, C.A.
Jacques Seigneuret, C.A
Charles R. Sharp
Linda Avison

Auditors:

Dunwoody & Company

Bankers:

Bank of Montreal

Transfer Agent:

National Trust Company

Shares Listed:

Class A, Class B; Alberta Stock Exchange (Symbols IDT.A and IDT.B)

Annual General Meeting:

Big White Motor Inn Kelowna, B.C. at 9:00 a.m., May 27, 1989

Head Office:

10424 Alaska Road
Fort St. John, B.C. V1J 1B3

Affiliated Operating Firms:

Northern Metalic Sales (FSJ), Fort St. John, B.C.

St. John Cable Ltd., Fort St. John, B.C.

Northern Bearing & Drive Services Ltd., Fort St. John, B.C.

Independent Plumbing and Heating, Fort St. John, B.C.

Northern Metalic Sales (Sparwood), Sparwood, B.C.

Independent Industrial Supply (Prince George), Prince George, B.C. & its subsidiary Forster's Auto Supply Ltd., Quesnel, B.C.

Independent Industrial Supply (Terrace) Ltd., Terrace, B.C.

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